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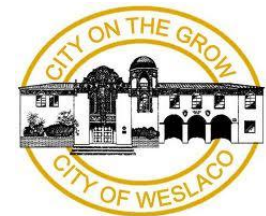
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## Plan of Finance and Series 2011 Tax Note Transaction Summary

December 6, 2011

**City of Weslaco, Texas**

# Plan of Finance Update

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- Bank Qualified Bonds
  - Bond issues for entities that issue \$10 million or less in a calendar year are deemed Qualified Tax Exempt Obligations or Bank Qualified (“BQ”)
  - This designation means banks that invest in BQ bonds receive additional tax credits
  - As a result, BQ bonds have a lower interest rate than Non-BQ bonds
  - The spread between BQ and Non-BQ is dynamic, depending on market conditions
  - Currently the spread is approximately 70 basis points
  
- The Weslaco Economic Development Corporation previously issued \$1,290,000 Sales Tax Revenue Bonds Series 2011B, meaning the City has approximately \$8,700,000 in additional BQ bonding capacity
  - The Corporation also issued \$1,090,000 Taxable Series 2011A, which does not count against BQ limit

## Plan of Finance

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- The proposed Plan of Finance has a combined projected par amount of \$43,300,000 as projected by Camp Dresser & McKee (“CDM”)
- By allocating the total par amount into three issues over the next 14 months, approximately \$18,300,000 of the proposed \$43,300,000, or 42% of the total par amount, will be Bank Qualified
  - \$8,500,000\* Tax Notes, Series 2011 **Bank Qualified**
  - \$25,000,000\* Certificates of Obligation, Series 2012 *Non-Bank Qualified*
  - \$9,800,000\* Certificates of Obligation, Series 2013 **Bank Qualified**
- This strategy lowers the overall cost of funds, all other factors being equal

- Require authorization by an ordinance and adoption by City Commission and have a maximum maturity of seven years
- Secured by the following sources:
  - Pledge of anticipated ad valorem taxes or revenues
  - Proceeds from bonds previously authorized but not yet issued
  - Current revenue sources
- Issued to finance the following:
  - Construction of public works
  - Purchase of materials, supplies, equipment, machinery, buildings, and land
  - Pay contractual obligations incurred for professional services
  - Pay operating or current expenses
  - Fund cash flow short fall
- Sell at interest rates similar to GOs
- Not subject to rollback under effective tax rate calculation

## Plan of Finance

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- The City also engaged CDM to perform a Rate Study to project water and wastewater rate adjustments required over the next several years to finance construction, operations and maintenance of the water and wastewater systems
- FirstSouthwest worked closely with CDM to structure water and wastewater rate adjustments in a stair-step fashion over the next 6 years
- Structured to target a minimum level of debt service coverage of approximately 1.17x

## Plan of Finance

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- For City Commission consideration today, the following items are on the agenda:
  - The authorization of the sale of the Series 2011 Tax Notes
  - The adoption of a Resolution authorizing the Notice of Intent to Issue Certificates of Obligation
  - The adoption of a Resolution to provide for the projected water and wastewater rate adjustments from 2013 - 2018

# Series 2011 Tax Notes

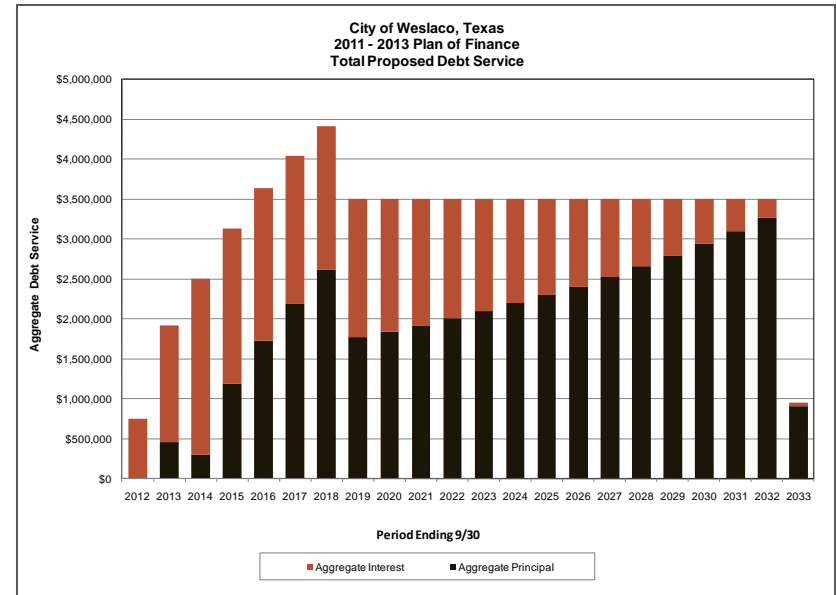
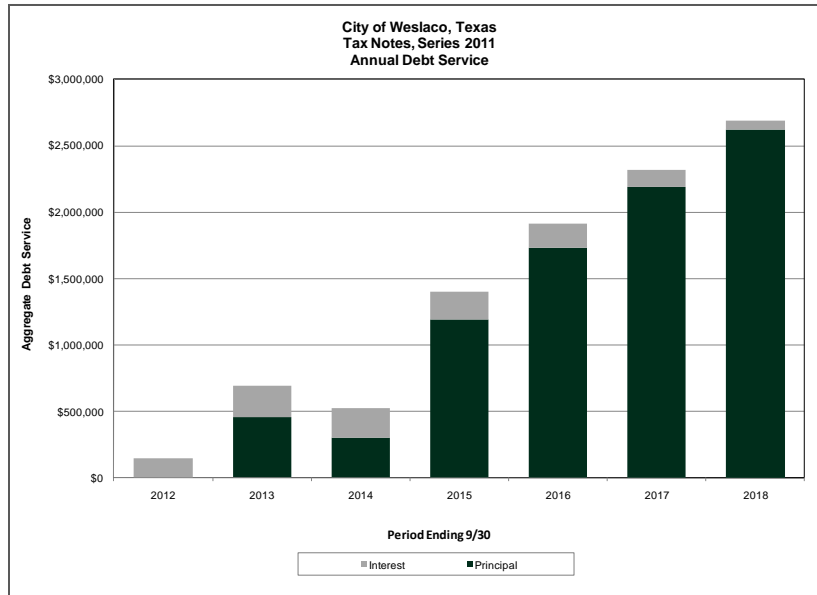
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- After consideration and discussions with Staff, a private placement was determined to be more advantageous method of sale
  - Reduced Cost of Issuance
  - Ability to Move Forward Quickly
- The amortization is limited to 7 years with a final maturity in 2018
  - Maintains Stair-step Structure
  - 2012 Certificates of Obligation will be structured with principal amortization starting 2019 to wrap around the Tax Note debt service
- Frost Bank has submitted a bid for consideration
  - \$8,500,000 Total Par Amount
  - Fixed Rate: 2.750%
  - Final Maturity: 2018
- Compared to a non-Bank Qualified open market transaction at current rates, the City saves approximately \$250,758 in interest cost and \$158,999 in costs of issuance for a combined \$409,757

# Projected Debt Service



## Summary

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- \$43,300,000 Multiple Year Plan of Finance
- Allocated over three issues in three calendar years allow more to be designated as Bank Qualified to reduce interest costs
- Structured to provide for water and wastewater rate adjustments in a stair-step structure from 2013-2018 with targeted minimum debt service coverage
- Series 2011 Tax Notes with 2.750% fixed rate bid to privately place with Frost Bank with a 7- year amortization ending in 2018
- Series 2012 Certificates of Obligation will be structured to wrap around Tax Notes with amortization beginning in year 2019